

CITY OF SEATTLE
PARTIAL REQUIREMENTS CONTRACT
FOR THE
SUPPLY OF UNTREATED WATER
TO
CITY OF NORTH BEND

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**PARTIAL REQUIREMENTS CONTRACT
BETWEEN
THE CITY OF SEATTLE
AND
CITY OF NORTH BEND
FOR THE SUPPLY OF UNTREATED WATER**

THIS CONTRACT is entered into between the CITY OF SEATTLE (“Seattle”), a municipal corporation of the State of Washington, and the CITY OF NORTH BEND (“North Bend”), a municipal corporation of the State of Washington.

RECITALS

1. Seattle owns and operates a system for the supply, transmission and distribution of potable water and is authorized to sell and distribute water to its residents and to other persons and customers located outside the corporate limits of Seattle.
2. Seattle's water system is integral to the health and welfare of the residents located within the water service area shown in Seattle's Water System Comprehensive Plan. Seattle intends to provide water from the system to meet the current and future needs of the residents of such water service area when such service is requested from Seattle.
3. In meeting this service commitment, Seattle must ensure that this role does not place financial burdens on its retail customers for which they do not receive a corresponding benefit.
4. This contract and contracts of a similar nature with other wholesale customers of Seattle located within Seattle’s service area are intended to provide those customers with the security of a long term service commitment and to describe the terms and conditions associated with that commitment.
5. Under this contract, Seattle intends to provide untreated water to North Bend under similar general pricing principles as it provides water to Seattle’s own distribution system, but recognizing the unique nature of North Bend’s requirement for untreated water for mitigation purposes.
6. Given the extensive growth of Seattle and surrounding areas and the impacts upon infrastructure and costs, this contract is intended to provide sufficient water for anticipated

growth. As a general philosophy for cost sharing purposes, the parties desire to adopt the principle that “growth should pay for growth.”

7. Seattle and the Wholesale Customers of Seattle have agreed to establish an Operating Board comprised of representatives pledged to represent the best interests of the region in order to provide overall direction to the Administrator of the Seattle Water Supply System.

NOW, THEREFORE, in consideration of mutual covenants herein, it is agreed as follows:

SECTION I. DEFINITIONS

For the purposes of this contract, the following terms have been defined as:

“Partial Requirements Contract” - A contract in which Seattle supplies a Wholesale Customer or Water Utility with that portion of its Full Water Requirements in excess of that provided by the Wholesale Customer’s or the Water Utility’s own supply.

“Basic Services Rate” – The commodity rates Seattle establishes for the Full and Partial Requirements Customer Class, which may include, but are not limited to, a commodity charge, a transition growth charge, a facilities charge, an emergency drought surcharge, a new or changed service charge, as well as seasonal adjustments.

“Wholesale Customer” – Those customers who receive water from Seattle for the purposes of reselling to others.

“1982 Water Purveyor Contract” – That Water Purveyor Contract between Seattle and certain Wholesale Customers having an effective date of September 8, 1982.

“FC” – Means Facility Charge.

“FC Waiver Event” – A reasonably unforeseeable interruption of a source of supply operated by North Bend that lasts for more than three weeks and is cured within two calendar years, including but not limited to major pump failure, earthquake and water quality problems.

“1% Water Conservation Program” - A program which has been implemented by Seattle which contains a goal of 1% conservation per year for ten years.

“Seattle Water Supply System” - Seattle's water supply system consisting of dams, impounded water, supply and transmission mains, pumps, treatment facilities, and all other facilities utilized in conveying water to Seattle's retail service area, to North Bend and other Wholesale Customers. This definition does not include Seattle's water distribution system, which is used to serve its Retail Customers. This definition also does not include the infrastructure and capital improvements owned and developed by North Bend for purposes of accessing and accepting delivery of untreated water under this contract.

“Seattle’s Average Cost of Debt” - The weighted average interest rate on Seattle’s water system debt outstanding calculated at the end of each calendar year during the term of this contract.

"Rate of Return on Investment" - Seattle's Average Cost of Debt, plus 1.5 percent.

"Service Connection" - The water meter and appurtenances through which water is delivered from the Seattle Water Supply System to a Wholesale Customer's water system.

"Stranded Costs" – Those water supply and related costs that Seattle and others have invested for the region which may not be recovered as a result of lost revenues.

"Seattle Water System Comprehensive Plan" - Seattle's 2007 Water System Plan, and amendments thereto, prepared by Seattle to comply with the requirements of WAC 246-290-100, and successor regulations.

"Administrator" - The Director of Seattle Public Utilities or any other title given to that person who maintains the authority to operate and manage the Seattle Water Supply System.

"Operating Board" – A board of representatives having the powers and duties set forth in Section V hereof.

SECTION II. TERM OF CONTRACT AND GUARANTEES

II.A. Term of Contract

1. Term. This contract shall take effect upon the signature of both parties and shall remain in effect until 12:01 AM on January 1, 2067.
2. Subsequent Right Of First Refusal. At the end of the term of this contract, North Bend shall have a right of first refusal to continue to purchase the amount of water then purchased from Seattle at the time of contract expiration.
3. Periodic Review and Right to Change Certain Terms and Conditions. The parties may review and change certain terms and conditions governing the sales of water hereunder on January 1, 2022 and January 1, 2042 as follows.
 - a. Consensual Process. On or before January 1, 2021, and then again on or before January 1, 2041, either party may provide the other with a written proposal to amend the contract terms. The parties shall then meet and consider the proposal. If the parties agree to the proposal prior to January 1, 2022 and January 1, 2042, respectively, a written amendment to this contract shall be approved and executed by both parties and this contract shall be amended accordingly.
 - b. Seattle's Right to Amend. If the parties are unable to agree on a proposal by Seattle pursuant to subsection a. above within the respective one-year periods, Seattle may propose in writing its desired amendment to the Operating Board. Seattle and the Operating Board shall meet and consider the proposed amendment and use reasonable efforts to resolve any differences in the proposal. After 90 days from Seattle's written proposal to the Board, Seattle may propose its desired amendment to the Seattle City

Council. If the Operating Board does not agree with such proposal, it may submit a revised proposal to the Seattle City Council within 90 days of Seattle's submission of its proposal to the Seattle City Council. After receiving the Operating Board's alternate proposal, or after the lapse of the 90 day period for the Operating Board to make an alternate proposal, the Seattle City Council may then deny both proposals or approve one of them and issue an amendment to this contract which shall be in effect for the remaining term of the contract from the date of issuance, unless later amended pursuant to subsection a. above, or by mutual agreement.

- c. Limitation on Seattle's Right to Amend. Notwithstanding subsection b. above, Seattle shall not have the right to: (i) reduce its obligation to provide North Bend with up to an average annual amount of 1.1 mgd of untreated mitigation water; (ii) reduce its water quality obligations hereunder; (iii) change the methodology for calculating Rate of Return on Investment; (iv) restrict North Bend's right to withdraw from this contract; or (v) disband or significantly reduce the powers of the Operating Board.

II.B. Agreement to Supply and Purchase Water

1. Partial Requirements Commitment. For the term of this contract, Seattle shall provide North Bend sufficient untreated water supply up to an average annual amount of 1.1 mgd to supplement North Bend's existing other sources of mitigation water and North Bend shall purchase its supplemental mitigation water needs from Seattle, except as set forth in Section II.B.2 below.
2. North Bend's Right to Terminate Purchase Commitment. North Bend may terminate this contract by giving Seattle at least two years written notice thereof, provided, however, if Seattle unilaterally amends the terms and conditions of this contract pursuant to Section II.A.3 above, North Bend may terminate this contract at any time within one year thereafter by giving Seattle one year written notice.
3. Seattle's Rights. Apart from the contract right to purchase water from Seattle under the terms of this contract, North Bend has no right or claim to the Seattle Water System or to any water right or claim held by Seattle.
4. Consumption Cap. The delivery of water to North Bend under this contract shall be limited to an average annual amount of 1.1 mgd.

II.C. Continuity of Service within the Term of the Contract

1. Parity of Service. Seattle shall provide untreated water to North Bend at a level of service that reasonably approximates the level of service Seattle provides its own distribution system. In the event of a general emergency or weather-related water shortage affecting the entire Seattle Water Supply System, general restrictions placed upon water deliveries to North Bend shall be determined by the Operating Board and applied equally to Seattle's distribution system and the Wholesale Customers. In the event of localized emergency

problems, North Bend acknowledges temporary, localized service interruptions may occur for the duration of the emergency.

2. Emergency Curtailment Measures. It is recognized by both parties that emergency water use curtailment measures may have to be implemented by Seattle on a regional basis in order to meet an emergency condition or a regional water shortage. The procedures to be used in the event of a weather-related regional water shortage, or shortages caused by other factors, shall be as described in Seattle's Water Shortage Contingency Plan in effect as of the effective date of this contract, or successor contingency plans. Successor contingency plans shall be developed and implemented by Seattle in consultation with the Operating Board. North Bend shall assist with and support all emergency curtailment measures that are implemented.
3. Other Emergencies. Seattle may temporarily interrupt or reduce deliveries of water to North Bend if Seattle determines that such interruption or reduction is necessary or reasonable to respond to system emergencies or the demands of federal or state resource agencies, to install equipment, make repairs, replacements, investigations and inspections, or to perform other maintenance work on the Seattle Water Supply System. Seattle has negotiated agreements with federal agencies, state agencies and tribes for the long-term preservation and enhancement of watersheds and instream beneficial uses and habitat. Such agreements have direct bearing on decisions to curtail the amount of water available for municipal and industrial water supply in any given season. Any water use restrictions Seattle must impose to satisfy the commitments Seattle has made under such agreements shall be borne proportionately, to the extent practicable, by Seattle, its wholesale customers, and North Bend. Except in cases of emergency, and in order that North Bend's operations will not be unreasonably interrupted, Seattle shall give North Bend and the Operating Board reasonable notice of any such interruption or reduction, the reasons for and the probable duration. Seattle shall use its best efforts to minimize service interruptions to North Bend.

II.D. Water Sources and Delivery of Water

1. Hobo Springs. The initial source of untreated mitigation water to be made available to North Bend under this contract shall be Hobo Springs in Seattle's Cedar River Watershed. North Bend's preliminary plans for facilities to connect to Hobo Springs are attached as Exhibit A (the "Hobo Springs Project"). North Bend shall coordinate with Seattle Public Utilities in preparing engineering plans for the Hobo Springs Project and shall submit the engineering plans to Seattle Public Utilities for review and approval, which Seattle Public Utilities may not unreasonably withhold. North Bend shall be responsible for all of the costs of design, engineering, permitting, environmental compliance, insurance, construction and maintenance for the Hobo Springs Project and any future expansions of capacity of Hobo Springs that Seattle Public Utilities may approve for purposes of satisfying mitigation water demand requirements under this contract. North Bend may apply to Seattle Public Utilities for permission to expand the capacity of Hobo Springs through additional spring collection facilities by submitting a preliminary design and construction proposal to Seattle Public Utilities for review and approval, after its determination that the proposed expansion is reasonable and adequately protective of the resources and interests of Seattle.

The Parties recognize that Hobo Springs may not have adequate daily capacity at all times of the year to meet North Bend's full mitigation water demand projections, and North Bend acknowledges that Seattle cannot and does not guarantee the quantity of water that may be available at Hobo Springs at any given time of the year. The Parties further recognize that Seattle operates its Water Supply System, including Masonry Pool and Chester Morse Lake, in a manner intended to make the best use of system capacity for the benefit of all ratepayers and that such operations may affect the quantity of water available at Hobo Springs at any given time of the year, and Seattle reserves the right to operate and make improvements to its Water Supply System facilities for the benefit of all ratepayers, even though such improvements may adversely affect the quantity of water available at Hobo Springs at any given time of the year.

In the event the quantity of water available at Hobo Springs is no longer adequate to satisfy North Bend's mitigation water demand requirements under this contract, due to growth in North Bend's demand for mitigation water or a reduction in the quantity of mitigation water available at Hobo Springs, Seattle will make available to North Bend an additional source of mitigation water from the Tolt Reservoir as provided in Section 2, below. Seattle agrees to provide reasonable advanced notice to North Bend of any proposed changes in operations or future improvements that would likely result in a significant reduction in the quantities of water available at Hobo Springs to allow North Bend adequate time to transition to alternative sources of mitigation water, if needed.

2. Tolt Reservoir and Supply Line. At such time as it may require additional mitigation water to meet its projected mitigation demands, North Bend may obtain untreated mitigation water under this contract by tapping into the penstocks from the Tolt Reservoir and constructing a pipeline to deliver the untreated water to Deep Creek, a tributary of the North Fork Snoqualmie River. North Bend's preliminary plans for facilities to connect to the Tolt Reservoir penstocks are attached as Exhibit B (the "Tolt Project"). North Bend shall coordinate with Seattle Public Utilities and Seattle City Light in preparing engineering plans for the Tolt Project and shall submit the engineering plans to Seattle Public Utilities and Seattle City Light for review and approval, after Seattle Public Utilities and Seattle City Light determine that the proposed expansion is reasonable and adequately protective of the resources and interests of Seattle Public Utilities and Seattle City Light. North Bend shall be responsible for all of the costs of design, engineering, permitting, environmental compliance, insurance, construction and maintenance for the Tolt Project. In addition, North Bend shall be responsible for reimbursing Seattle City Light for any losses in revenue that result from the Tolt Project.
3. Designation of Supply from Multiple Mitigation Sources. If North Bend constructs both the Hobo Springs and the Tolt Projects, Seattle may designate the source North Bend should preferentially utilize by providing a minimum of thirty (30) days advance written notice to the North Bend Public Works Department of the source (Hobo Springs or Tolt) North Bend should use as a first priority and the duration of such prioritization. In the absence of such written notice, North Bend may use either source or any combination of sources to meet its mitigation requirements. Nothing in this paragraph is intended to limit North Bend's rights

under the terms of this contract to purchase up to an average annual amount of 1.1 mgd of untreated mitigation water.

4. Management of Hobo Springs Withdrawals. Seattle Public Utilities and North Bend intend to manage withdrawals from Hobo Springs so that flows in Hobo Creek and the surrounding local habitat are not significantly reduced below normal seasonal fluctuations. North Bend will monitor, report on and communicate with Seattle Public Utilities regarding withdrawals from Hobo Springs so that they can best manage their withdrawals in concert with Seattle Public Utilities' operations of its Water Supply System, including Masonry Pool and Chester Morse Lake. Seattle Public Utilities will also communicate with North Bend about current and anticipated Masonry pool levels that will inform North Bend operations and planning related to their Hobo Springs withdrawals.

Upon the initiation of withdrawals under this Contract, North Bend shall begin a monitoring and data collection program to evaluate the effects its withdrawals may have on flows in Hobo Creek and the surrounding local habitat. Seattle Public Utilities will provide North Bend with available information that will be useful in understanding other ground water sources from the Cedar Falls glacial moraine aquifer that contribute to the flow of Hobo Creek and the surrounding local habitat. The monitoring and data collection program shall continue for a period of 24 months. Within 90 days following the end of the 24-month period, North Bend shall provide Seattle Public Utilities with a report on its findings with respect to the effects of its withdrawals from Hobo Springs on creek flows and the surrounding local habitat, including an evaluation of the contribution of other ground water sources to Hobo creek flows and the surrounding local habitat. Seattle Public Utilities and North Bend shall then meet to discuss the report and the results of the monitoring and data collection program for purposes of:

- (i) determining whether and the degree to which North Bend's withdrawals are significantly affecting Hobo creek flows and the surrounding local habitat; and
- (ii) comparing the effects on creek flows and surrounding local habitat from North Bend's withdrawals in relation to Seattle Public Utilities' management of Masonry Pool levels; and
- (iii) determining if mitigation is appropriate; and
- (iv) evaluating the need for future monitoring and data collection.

Seattle Public Utilities does not anticipate the need for North Bend to curtail its withdrawals from Hobo Springs for purposes of mitigating potential impacts to creek flows or the surrounding local habitat.

II.E. Water Quality

1. Seattle Water Supply System. Seattle is responsible for water quality within the Seattle Water Supply System. Seattle is responsible for constructing, operating and maintaining water quality treatment facilities and must use its best efforts to carry out its water quality responsibilities in the most cost-effective manner for the region.
2. Applicable Standards. Seattle is responsible for delivering water to its Wholesale Customers that meets or exceeds all applicable federal, state and local legal requirements.
3. System-wide Water Quality Plan. Seattle, in consultation with the Operating Board, develops and maintains a system-wide regional water quality plan. The plan describes, at a minimum, goals, objectives, procedures and the means to satisfy legal requirements and industry standards for water quality, monitoring, information exchange, best management practices, adaptive management practices, public health protection, and cross connection control. The Operating Board may form a technical subcommittee to provide input and review of such plan. Seattle shares available water quality data and technical expertise with all Wholesale Customers.
4. Distribution Systems. North Bend shall be responsible for compliance with all federal, state and local water quality laws and regulations applicable to water in its distribution system including any water from supply sources that it may own or operate.
5. Monitoring. Seattle is responsible for water quality monitoring in the Seattle Water Supply System. North Bend is responsible for water quality monitoring in its distribution system to comply with federal, state and local water quality regulations. North Bend is responsible for verifying that its use and application of the water supplied under this contract is in compliance with all applicable federal, state and local legal requirements and for obtaining all necessary and appropriate regulatory permits, reviews and approvals for its use and application of the water supplied under this contract. Notwithstanding the foregoing, North Bend may contract with Seattle for water quality monitoring services as an elective service under Section IV.D below.
6. Water Quality Best Management Practices and Adaptive Management Practices. The Operating Board shall develop best management practices ("BMPs") and adaptive management practices ("AMPs") as reasonably necessary to protect water quality within the Seattle Water Supply System. The BMPs and AMPs will include recommendations to prevent deterioration of water quality in transmission and distribution systems. The parties shall use reasonable efforts to comply with the BMPs and AMPs.
7. Flushing. North Bend shall be solely responsible for flushing water mains within its system.
8. Transfers Outside Seattle's Transmission System. If, with the prior written approval of Seattle, North Bend transfers water supplied by Seattle under this contract to another water utility in a manner that does not use the Seattle Water Supply System, North Bend or the

other water utility shall be responsible for meeting all applicable water quality standards related to the transfer of such water.

II.F. Conservation

The parties acknowledge that conservation prolongs the time before new supply resources are needed and thus constitutes an important ongoing tool in managing the water resources of the region. North Bend shall, at a minimum, implement conservation measures that are substantially similar to those imposed by Seattle on its own retail customers, and shall comply with all applicable state requirements for water use efficiency and conservation, including their own water system plans.

Postponing The Need For New Water Supply Facilities. In order to avoid the necessity of developing new physical water supply facilities for as long as reasonably practicable, any water saved through conservation in either Seattle's or North Bend's retail service areas shall be dedicated first to the municipal and industrial water supply requirements of the Seattle Water Supply System before any other use of such water may be undertaken.

SECTION III. CONDITIONS OF SERVICE

III.A. Resale to Other Parties

North Bend may not sell water supplied by Seattle under this contract without the prior written approval of Seattle.

III.B. Prohibition on Interconnection With Other Systems

North Bend shall not interconnect any part of its system supplied with untreated water under this contract with other water systems without the prior written approval of Seattle. Such other systems must be in compliance with all applicable federal, state and local legal requirements.

III.C. Development of Regional Supply and Transmission Infrastructure

Final decisions and authority to approve construction of capital infrastructure related to the Seattle Water Supply System shall rest with the Seattle City Council. Capital construction activities include all renewals, replacements, upgrades, expansion and any other capital construction activities.

III.D. Metering Equipment

Seattle shall own and maintain appropriate metering devices to measure the amount of water North Bend receives under this contract. At North Bend's request and expense, Seattle shall install and maintain equipment selected by North Bend and approved by Seattle to transmit signals to North Bend's recording equipment (at locations determined by North Bend) indicating the amount of water North Bend receives as measured by Seattle's metering devices.

SECTION IV. COST OF WATER & TRANSMISSION

Cost-based rates are a water industry accepted practice and the historical practice of Seattle and the Wholesale Customers. The rate-making principles, policies and methodologies set forth in this Section IV are intended to meet the objective of equitable and cost-based rates.

IV.A. Rate-making Principles

The following general principles and policies shall apply to the establishment of all rates and charges for water supply and related services provided under this contract.

1. No expenses attributable to electric power development maybe allocated to the cost pools identified herein unless the pools are allocated a commensurate share of revenue derived from such development.
2. Seattle shall utilize generally accepted accounting principles consistently applied as a basis for developing the financial information upon which rates and charges are based.
3. Abrupt changes in financial policies should be avoided.
4. The rate structure should encourage the efficient use of water, conservation and the timely development of new environmentally responsible water sources and should incorporate seasonal rates and other pricing approaches to encourage efficient use.
5. The rate structure should be innovative, flexible and adaptive whenever it is cost effective and beneficial in furthering the rate-making policies.
6. The rate structure should be simple to administer and easily understandable.
7. The rate structure should be fair and equitable while balancing the needs of all parties.
8. Capital costs which benefit only a new Wholesale Customer shall be allocated to that customer and not to any cost pool described in this contract.
9. Seattle's distribution system which serves its retail customers shall be treated as the equivalent of a Wholesale Customer of the Seattle Water Supply System for the purpose of charging Seattle the same wholesale rates and charges as North Bend for water supply and transmission. Costs calculated under the costs pools described below shall apply equally to North Bend and to Seattle's distribution system, which serves its retail customers.
10. The allocation of costs associated with capital construction activities within the Seattle Water Supply System shall be the responsibility of the Operating Board. The Operating Board shall use its best efforts to determine and approve a cost allocation method for infrastructure projects prior to the capital project obtaining construction approval from the Seattle City

Council. Failure of the Operating Board to determine and approve a cost allocation method shall not hinder the Seattle City Council from approving capital infrastructure projects in order to assure Seattle's ability to fulfill the requirements of this contract.

IV.B. Rate-making Framework

Subject to the foregoing principles, wholesale rates and charges for the services described in this contract shall be developed by Seattle based on the following framework:

1. Water Supply - Basic and Elective Services. The costs of supplying water fall into two categories – basic and elective services. Basic service costs include direct and indirect costs attributable to the delivery of water to the Wholesale Customers and to Seattle's retail service area pursuant to the foregoing principles. Elective services are optional services, such as water quality laboratory services and specific engineering support that Seattle makes available.
2. Conservation. Costs incurred by Seattle for regional conservation shall be allocated to the Wholesale Customers through rates or FCs as determined by the Operating Board in the New Supply Cost Pool.

IV.C. Water Supply Pricing

1. Basic Services Rate. Water supply pricing under this contract is based on the Basic Services Rate, as defined in Section I. With the exception of the adjustments and other charges under Section IV.C.2. through IV.C.7, below, North Bend will pay the same rates for Basic Services as other full and partial requirements customers.
2. Adjustment for Treatment. The water supply price shall include a reduction from the Basic Services Rate of that portion of the Basic Services Rate attributed to the costs of treatment (both capital costs and operation and maintenance costs); provided that after 2022, Seattle may at its sole discretion elect to charge or add back into the supply price for water delivered to North Bend under this contract the capital costs associated with treatment, while retaining the reduction for operation and maintenance costs associated with treatment. An example of the calculation of the adjustment for treatment is provided in Exhibit C, which will be based upon the same detailed financial information used for setting rates for the applicable year.
3. Summer Rate Period Extension. If North Bend's average daily demand (ADD) in October is equal to or higher than its ADD in the summer rate period in at least three of the last ten years, Seattle may at its sole discretion elect to apply the rate established for the Summer season to North Bend's consumption through the end of October. If Seattle elects to apply the rate established for the Summer season through the end of October, Seattle shall provide North Bend with written notice of that determination by December 31st of the year preceding the year Seattle intends to apply the extended Summer season rate to North Bend's demand through the end of October.

4. Demand Charge. For purposes of water delivered under this contract, North Bend will be exempt from any Demand Charge Seattle may impose on other full and partial requirements customers.
5. Facility Charges. North Bend shall be exempt from the imposition of facility charges, under this section, for the initial three-year trial period commencing on the date of first delivery of water under this contract. North Bend shall also be exempt from the imposition of facility charges, under this section, during the five-year entry fee period, commencing at the end of the initial three-year trial period. After the end of the five-year entry fee period, North Bend shall be assessed an annual facility charge. The annual facility charge shall be calculated annually based on the annual growth in the volume of water delivered to North Bend under this contract. Water use resulting from catastrophes, e.g. large fire, and FC Waiver Events shall be excluded for purposes of this calculation. Also, water use during the test period and the entry fee period shall be considered zero for FC purposes. The annual facility charge shall be calculated on a three-year rolling average and shall be assessed based on the Facility Charge rate in effect on December 31st of the most recent year being evaluated.
6. Entry Fee. At the end of the five-year entry fee period, commencing at the end of the initial three-year trial period, North Bend shall be assessed a one time entry fee. The entry fee shall be calculated based on the average annual consumption during the five-year trial period. Water use resulting from catastrophes, e.g. large fire, and FC Waiver Events shall be excluded for purposes of this calculation. An example of the calculation of the one time entry fee is provided in Exhibit C, which will be based upon the same detailed financial information used for setting rates for the applicable year.
7. Billed Consumption. Seattle shall calculate consumption under this contract by averaging the highest annual water consumed to date with the amount of water consumed for the previous three years.
8. Examples of rate calculations are included in Exhibit C.

IV.D. Elective Services

1. Water Supply Services. Seattle may provide certain elective services (e.g. conservation, engineering) to North Bend upon request by North Bend. Such services shall be negotiated and contracted for separately between North Bend and Seattle.
2. Water Quality. So long as Seattle owns and operates a water quality lab, North Bend may use the services of that lab based on its published rates.

IV.E. Rate Adjustment

1. Rate Adjustment. Upon 120-days notice of its intent to do so, Seattle may adjust water service rates and FCs to North Bend subject to the terms of this contract. Rate adjustments

will be effected only within five years of the completion of a cost of service study to be conducted by Seattle which shall include an analysis of the allocation of operation, maintenance and capital costs between cost pools. Such study shall be prepared in accordance with accepted industry standards. In addition, Seattle shall review the Operating Board's comments and recommendations on the rate proposal and provide a written explanation of any recommendations that are not accepted.

2. Rate Consultant. An independent rate consultant shall be selected by Seattle in consultation with the Operating Board. Detailed information and progress reports from the consultant will be made to North Bend during the course of the study upon drafting of each major study section directly affecting North Bend and other Wholesale Customers. A final consultant report shall be made available to North Bend not less than 30 days before Seattle formally transmits any resulting rate adjustment proposal to the Operating Board.

IV.F. Retail Rate-Setting

Each party to this contract shall have sole authority for establishing retail rates, connection charges and other fees and charges within its respective jurisdiction.

SECTION V. OPERATING BOARD

1. Purpose. The purpose of the Operating Board is to provide certain limited authority to a board of representatives elected by the Wholesale Customers over policy and operational matters as they affect the Seattle Water Supply System. Under the terms of this contract, North Bend is not a Wholesale Customer and is not entitled to participate in the election of or serve on the board of representatives.
2. Structure and Authority. The Operating Board shall have the powers and authority as set forth herein. Exhibits D and E describe the structure and authority of the Operating Board. The matrix provided in Exhibit E is for illustrative purposes only. In the event of a conflict between provisions of this contract which grant specific powers to the Operating Board and Exhibits D and E, such grants of specific powers shall control.
3. Review. The structure and authority of the Operating Board may be reviewed as of January 1, 2007, and every five years thereafter to determine its effectiveness in addressing regional and contractual issues. The review may address the composition of the Board and its powers and authority as set forth in Exhibits D and E, provided that notwithstanding any other term or provision of this contract, Seattle shall not have the power to disband the Operating Board nor take away or diminish the powers vested in the Operating Board as set forth in Sections II, IV, VI and VIII of this contract. Either party may initiate the review. The reviewing party shall provide the other with its comments and proposals. The parties agree to consider the other party's comments and proposals and to respond in writing stating its reasons for rejecting any proposals and the reasons for its own counter-proposal. After consideration of all comments and proposals at each five year interval, Seattle may make changes in the

structure and authority of the Operating Board that are not inconsistent with the provisions of this subsection.

SECTION VI. PLANNING

VI.A. Reporting of Planning Data

1. By no later than April 1 of each year, North Bend shall report to Seattle and the Operating Board as follows:
 - a. Its annual and peak day total mitigation water demand for each year, during the term of this contract, as of December 31st of the previous year.
 - b. Its forecast of a range of full mitigation water requirements for the year including estimates of annual mitigation water consumption and maximum 24-hour peak mitigation demand for the ensuing calendar year, and for the relevant forecasting years consistent with North Bend's water system comprehensive plan. Such forecasts shall reflect the best judgment of North Bend.
2. North Bend shall report other data relating to water supply and demand as may be reasonably requested by Seattle for water planning purposes.
3. Records relevant to water supply and consumption within the possession of Seattle or North Bend shall be provided to the other upon reasonable request.

VI.B. Submittal of North Bend Comprehensive Plans

North Bend shall provide a copy of its water comprehensive plan, including any amendments, to Seattle for inclusion in Seattle's Water System Comprehensive Plan.

VI.C. Seattle as Water Planning Agency

Seattle, in consultation with the Operating Board, shall examine and investigate water supplies suitable and adequate to meet the present and reasonable future needs of Seattle and the Wholesale Customers. Seattle shall prepare and adopt a plan for acquiring such water supplies in a timely fashion. The plan shall provide for the lands, waters, water rights and easements necessary therefor, and facilities for retaining, storing and delivering such waters, including dams, reservoirs, aqueducts and pipelines to convey same throughout the Seattle Water Supply System. In preparing or adopting the plan, Seattle shall consider as possible alternatives or additional water supply sources the acquisition of water from sources controlled and/or developed by individual water utilities, legally constituted groups of water utilities and utilities which are not presently supplied by the Seattle Water Supply System. Seattle has final responsibility for the plan and for fulfilling the obligations of this contract. However, the Operating Board may participate in developing the plan by proposing goals and objectives for

the Seattle Water Supply System, by making any additional suggestions and by acting in a review capacity.

VI.D. Comprehensive Capital Facilities Plan

Before ordering any major improvements to fulfill the requirements of this contract, Seattle shall adopt and maintain a comprehensive capital facilities plan for the Seattle Water Supply System, which provides for such improvements. When such plan is updated or amended, it shall be reviewed by the Operating Board prior to submission to the Seattle City Council. The Operating Board shall respond within 60 days of receipt of the plan, or its approval shall be presumed to be given. The response submitted by the Operating Board regarding facilities substantially affecting North Bend and other Wholesale Customers shall be seriously considered by Seattle. Seattle shall reply to the Operating Board within 90 days with its comments. The Operating Board and Seattle shall use their best efforts to arrive at a mutually acceptable plan.

VI.E. Emergency Planning

An emergency plan shall be prepared and maintained by Seattle as part of its Water System Comprehensive Plan to provide for water supply in the event of drought or disaster. Such plan shall be prepared pursuant to the procedure outlined in Section VI.D. North Bend shall use reasonable efforts to comply with the provisions of such plan, or alternatively, North Bend may adopt its own emergency plan if it believes it is prudent to do so.

SECTION VII. PAYMENT

VII.A. Collection of Money Due City

Seattle shall bill North Bend on a monthly basis for all charges due under this contract. North Bend shall pay such charges within 60 days of the billing date. Any amounts disputed by North Bend shall be paid under protest within the 60-day time period.

VII.B. Penalties for Late Payment

All late payments, and any refund of an amount in dispute that was paid under protest, shall accrue interest at 1% per month.

VII.C. Disputes

North Bend may dispute the accuracy of any portion of charges billed by Seattle by taking the following actions within the 60-day payment period by notifying Seattle in writing of the specific nature of the dispute and paying the undisputed portion of the charges.

Seattle shall consider and decide any billing dispute in a reasonable and timely manner. Any billing disputes that remain after such consideration shall be reconciled pursuant to the dispute resolution procedures of this contract.

SECTION VIII. DISPUTE RESOLUTION

Dispute resolution shall proceed in four steps as follows:

VIII.A. Operating Board Review

Any dispute regarding the terms of this contract shall first be referred to the Operating Board for consideration and recommendation. Each party shall submit a written statement regarding the dispute to the Operating Board.

1. If the dispute cannot be resolved in discussions with the Operating Board, then the Operating Board shall provide written recommendations to each parties within 60 days of the above submittal setting forth its interpretation of the applicable facts and law.
2. If either party rejects the written recommendation of the Operating Board, that party shall within 10 days, notify the other party in writing of its reasons.

VIII.B. Seattle City Council Review

The written statements of the parties, the recommendations of the Operating Board and the written reasons for either party's rejection of those recommendations shall then be submitted to the Seattle City Council for review.

1. Within 60 days of the submittal of the written materials, the Seattle City Council shall provide written recommendations to resolve the dispute.
2. If either party rejects the written recommendation of the Seattle City Council, that party shall within 10 days notify the other party in writing its reasons.

VIII.C. Non-binding Mediation

Within 10 days of receiving the written rejection of the Seattle City Council's recommendations by one or both parties, each party shall designate in writing not more than 5 candidates it proposes to act as a non-binding mediator.

1. If the parties cannot agree on one of the mediators from the combined list within 5 days, the Operating Board shall within an additional 5 days select one of the mediators from either list to serve as mediator.
2. Upon selection of the mediator, the parties shall use reasonable efforts to resolve the dispute within 30 days with the assistance of the mediator.

VIII.D. Resort to Litigation

If mediation fails to resolve the dispute within 30 days of selection of the mediator, the parties may thereafter seek redress in court subject to Section IX.G. below.

SECTION IX. MISCELLANEOUS**IX.A. Notification**

Whenever written notice is required by this contract, that notice shall be given to the following representatives by actual delivery or by the United States mail (registered or certified with return receipt requested,) addressed to the respective party at the following addresses or a different address hereafter designated in writing by the party):

<u>SEATTLE:</u>	<u>NORTH BEND:</u>
Director	City Administrator
Seattle Public Utilities	City of North Bend
700 5 th Avenue, Suite 4900	P.O. Box 896
P.O. Box 34018	North Bend, WA 98045
Seattle, WA 98124-4018	

The date of giving such notice shall be deemed to be the postmarked date of mailing.

IX.B. Severability

The purpose of this contract is to provide for long-term water supply planning and certainty for both Seattle and North Bend through adoption of orderly plans calling for the expenditure of vast sums of money for regional water supply and transmission facilities. It is the intent of the parties that if any provision of this contract or its application is held by a court of competent jurisdiction to be illegal, invalid, or void, the validity of the remaining provisions of this contract or its application to other entities, or circumstances shall not be affected. The remaining provisions shall continue in full force and effect, and the rights and obligations of the parties shall be construed and enforced as if the contract did not contain the particular invalid provision; provided, however, if the invalid provision or its application is found by a court of competent jurisdiction to be substantive and to render performance of the remaining provisions unworkable and non-feasible, is found to seriously affect the consideration and is inseparably connected to the remainder of the contract, the entire contract shall be null and void.

IX.C. Consent

Whenever it is provided in this contract that the prior written consent or approval of either party is required as a condition precedent to any actions, in each such instance said consent or approval shall not be unreasonably withheld, and in each such instance where prior consent is sought,

failure of the party to respond in writing within 90 days of the request shall be deemed as that party's consent or approval unless expressly stated herein. This provision does not apply to requests for amendments of this contract.

IX.D. Emergency Situations

Nothing in this contract shall be deemed to preclude either party from taking necessary action to maintain or restore water supply in emergency situations and such action shall not be deemed a violation of this contract.

IX.E. No Joint Venture - Individual Liability

This is not an agreement of joint venture or partnership, and no provision of this contract shall be construed so as to make North Bend individually or collectively a partner or joint venturer with any other Wholesale Customer or with Seattle. Neither party is an agent of the other. Neither Seattle nor North Bend shall be liable for the acts of the other in any representative capacity whatsoever.

IX.F. Complete Agreement

This contract represents the entire agreement between the parties hereto concerning the subject matter hereof. This contract may not be amended except as provided herein.

IX.G. Venue, Jurisdiction and Specific Performance

In the event of litigation between the parties, venue and jurisdiction shall lie with the King County Superior Court of the State of Washington. The parties shall be entitled to specific performance of the terms hereof.

IX.H. Default

In the event of default of any provision of the contract, the non-defaulting party shall issue written notice to the other party setting forth the nature of the default. If the default is for a monetary payment due hereunder, the defaulting party shall have thirty (30) days to cure the default. In the event of other defaults, the non-defaulting party shall use its best efforts to cure the default within ninety (90) days. If such default cannot be reasonably cured within such ninety (90) day period, the non-defaulting party shall, upon written request prior to the expiration of the ninety (90) day period be granted an additional sixty (60) days to cure the default.

IX.I. Force Majeur

The time periods for Seattle's or North Bend's performance under any provisions of this contract shall be extended for a reasonable period of time during which Seattle's or North Bend's performance is prevented, in good faith, due to fire, flood, earthquake, lockouts, strikes, embargoes, acts of God, war and civil disobedience. If this provision is invoked, Seattle agrees

to immediately take all reasonable steps to alleviate, cure, minimize or avoid the cause preventing such performance, at its sole expense.

IX.J. Successors

This contract shall inure to the benefit of and be binding upon the parties and their successors and assigns.

SIGNATURE PAGE

IN WITNESS WHEREOF, the parties hereby execute this contract.

CITY OF NORTH BEND

BY: _____

Kenneth G. Hearing

TITLE: Mayor

DATE _____

AUTHORIZING LEGISLATION: RESOLUTION _____

THE CITY OF SEATTLE

BY: _____

Director, Seattle Public Utilities

DATE: _____

AUTHORIZING LEGISLATION: ORDINANCE _____

EXHIBIT A

**HOBO SPRINGS PROJECT
PRELIMINARY DESIGN PLANS**

TECHNICAL MEMORANDUM NO. 1

HOBO SPRINGS MITIGATION PRE-DESIGN

TO: Ron Garrow, P.E.
Thomas Pors

FROM: Russ Porter, P.E.
Josef Dalaeli, E.I.T.

DATE: March 7, 2007

SUBJECT: HOBO SPRINGS MITIGATION PRE-DESIGN, CITY OF NORTH BEND,
KING COUNTY, WASHINGTON
G&O #06724

Introduction

The City of North Bend is planning construction of a new production well on the City's Public Works property. This well is designated as being within the Snoqualmie River Basin, for which the Washington State Department of Ecology (Ecology) is allowing no additional water rights without mitigation. Therefore, to fulfill the requirements of mitigation in order to obtain water rights for the new production well, the City of North Bend has contracted with Gray & Osborne, Inc. to provide engineering services for the design of mitigation facilities to provide water from Hobo Springs in the Cedar River Municipal Watershed to Boxley Creek, a tributary of the South Fork of the Snoqualmie River.

Mitigation Criteria

Mitigation will be required when instream flows of the Snoqualmie River do not meet Ecology's required levels at the monitoring stations at Snoqualmie Falls, Carnation, or Monroe. The mitigation criteria are described in detail in the *Report on North Bend Mitigation Supply from Hobo Springs and Sallal Wells* produced by Golder and Associates dated February 28, 2007 (Golder Report).

Facilities

In order to provide the required mitigation for the new production well at North Bend, water will be diverted from Hobo Springs to a newly constructed outfall at Boxley Creek. An additional source of mitigation water will be provided by connecting the mitigation line to Sallal Water

Association's (Sallal) production wells via an existing but unused Sallal water line, which once supplied Sallal with water from the Masonry Pool. The facilities necessary to provide this mitigation water are as follows:

- Hobo Springs Intake Pipeline Improvements
- Mitigation Pipeline
- Mitigation Booster Pump Station
- Sallal Waterline Intertie Improvements
- Boxley Creek Outfall

These facilities and their design are further discussed below and shown on the attached figure.

Hobo Springs Intake Improvements

Hobo Springs is located south of Rattlesnake Lake. The springs have been developed in the past to serve as a water source for the Milwaukee, St. Paul, and Pacific Railway, the community of Cedar Falls, and Sallal Water Association.

The existing springs consist of a concrete collection box with a weir. A 6-inch waterline from the collection box provided Hobo Springs water to former water users. The 6-inch waterline tees with one line heading southeast to the Seattle Public Utilities' Cedar Falls facility and the other line heading to Sallal Water Association. The waterline was routed along Seattle Public Utilities' Service Road No. 101 with a booster station located along that road near Hobo Springs. The booster station is no longer in service and inoperable. The booster station will be demolished as part of this project.

Hobo Springs consists of several springs that erupt along a hillside. The concrete collection box captures only a portion of the total spring output. According to the Golder Report, the collection box captures approximately 60 to 70 percent of the total spring output. The remaining output that is not captured in the collection box flows into the stream that runs from the weir outlet of the collection box to Rattlesnake Lake.

The Golder Report indicated that weir data for Hobo Springs showed that the maximum flows for a period of several years ranged between 5 and 6 cfs (2,200 to 2,700 gpm). These flows were measured at the collection box weir and represent only that portion of Hobo Springs that passed through the collection box. For the purposes of design, the maximum flow available from Hobo Springs will be 2,500 gpm.

The proposed improvements to the existing facilities at Hobo Springs include the replacement of the existing 6-inch waterline with a 16-inch waterline to convey up to 2,500 gpm from Hobo Springs. The waterline would be connected to the existing 6-inch waterline that formerly served but is still connected to SPU's Cedar Falls facility.

No other improvements are planned for Hobo Springs. The Golder Report indicated that the existing flow from Hobo Springs should be sufficient to provide mitigation to North Bend for approximately 30 years of growth of municipal water supply demands. At that time, Hobo

Springs could be modified to capture more of the spring flow than the existing collection box capacity for additional mitigation capacity if necessary.

Mitigation Pipeline

Approximately 8,000 linear feet of 16-inch HDPE waterline will be used to convey Hobo Springs water to Boxley Creek. The waterline will be aligned along Seattle Public Utilities' service road 101, a Seattle City Light power transmission line easement, and the Iron Horse Trail, a Washington State Parks facility. The pipeline is sized to convey the expected 2,500 gpm flow.

Mitigation Booster Pump Station

The flow from Hobo Springs will need to overcome the head losses in the 8,000 linear feet of 16-inch waterline. Hobo Springs is approximately 20 feet higher than the highest point along the waterline alignment near the Boxley Creek outfall but this difference will likely be used up through losses in fittings, valves, meters, etc. Consequently, a booster station may be required to pump the water. The proposed location for the booster station is along the Iron Horse Trail. This location would allow for vehicle access along the Iron Horse Trail. A meter and controls would be located at the booster station along with a telemetry link to the North Bend telemetry system. The station would receive a signal remotely from the North Bend telemetry system indicating the need for Hobo Springs mitigation water. Electronic controls will use the meter signal to throttle the flow to match the required mitigation amount.

Sallal Waterline Intertie Improvements

Sallal Water Association is an additional source of mitigation water during periods when the output of the Hobo Springs is not sufficient to meet the mitigation requirement. Sallal has a groundwater source that is unchlorinated and originates from the same seepage from the Masonry Pool as Hobo Springs.

In the past, Sallal received water from Seattle Public Utilities via a 12-inch waterline from the Seattle Public Utilities' Masonry Pool dam that crosses the Iron Horse Trail. The pipeline is currently unused but would provide a convenient conduit for moving auxiliary mitigation water from Sallal's wells to Boxley Creek.

The improvements required for using Sallal's groundwater include a connection with the Hobo Springs mitigation line on the Iron Horse trail and control improvements where the waterline is connected to the Sallal distribution system.

The connection between the Hobo Springs mitigation line and the Sallal 12-inch waterline will occur along the Iron Horse Trail south of Christmas Lake. The existing Sallal waterline is routed across the Iron Horse Trail at a depth of approximately eight feet. The new Hobo Springs mitigation line will be aligned above the Sallal waterline at a depth of three to four feet below

grade. The intertie between the two will consist of valves and fittings to allow isolation of either line. The unused portion of the Sallal waterline to the south will be capped and abandoned.

The control improvements where the Sallal waterline is connected to the Sallal distribution system will consist of a control structure and cross connection control. The control structure will be a vault with a meter and a control valve to control the flow rate. The unit will have an electronic control that will be in contact with the North Bend telemetry system. The unit will operate via a remote signal from the North Bend telemetry system indicating that Sallal water is needed for mitigation. A cross-connection device suitable for this application will also be installed to protect the Sallal water system.

Boxley Creek Outfall

The Hobo Springs mitigation line terminates at Boxley Creek near a trestle that conveys the Iron Horse Trail over the creek. The pipe outfall will consist of a quarry spall energy dissipation pad located on the bank of the stream and prevent erosion.

EXHIBIT B
TOLT PROJECT
PRELIMINARY DESIGN PLANS

**CITY OF NORTH BEND
LONG TOLT TO DEEP CREEK MITIGATION ALTERNATIVE**

Use of Existing Facilities

- City of Seattle Tolt Pipeline

New Facilities

- Tap and Control Station on Tolt Pipeline approx. 1 mile downstream of Tolt Dam.
 - Control Valve
 - Meter
 - Telemetry
- 23,250 LF 12-inch Waterline over Deep Creek Divide and to Deep Creek drainage with a discharge into the North Fork of the Snoqualmie River

Capacity

- 2,000 gpm (4.5 cfs)

Cost

- \$1.7 - \$2.3 M

EXHIBIT C
EXAMPLES OF
RATE CALCULATIONS

Example Calculations for North Bend Monthly Bills

Example Monthly Purchases by North Bend from SPU (in CCF's)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL	
2005	6	10	7	9	3	6,970	9,758	4,182	3,485	10	8	8	24,455	Trial Period
2006	2,186	3,279	2,459	3,005	956	6,642	9,299	3,985	3,321	3,552	2,732	2,732	44,148	Trial Period
2007	2,506	3,759	2,819	3,445	1,096	2,401	3,361	1,441	1,200	4,072	3,132	3,332	32,564	Trial Period
2008	140	210	157	192	122	10,514	14,720	6,309	10,514	227	175	175	43,457	Entry Fee Period
2009	1,725	2,588	1,941	2,372	1,509	6,061	8,485	3,636	6,061	2,803	2,156	2,156	41,494	Entry Fee Period
2010	1,657	2,486	1,864	2,279	1,450	2,918	4,085	1,751	2,918	2,693	2,072	2,072	28,246	Entry Fee Period
2011	2,639	3,958	2,968	3,628	2,309	6,498	9,098	3,899	6,498	4,288	3,298	3,298	52,379	Entry Fee Period
2012	293	1,304	1,298	2,252	1,538	13,946	1,732	4,321	11,483	2,662	2,048	2,048	44,925	Entry Fee Period
2013	1,338	2,007	1,505	1,840	1,171	3,295	4,613	1,977	12,882	2,175	1,832	1,673	36,307	
2014	869	1,303	977	1,195	760	13,013	18,219	7,808	13,013	1,412	1,086	1,086	60,742	
2015	1,644	2,467	1,482	2,261	2,118	9,458	4,325	6,121	8,624	2,672	2,055	2,055	45,283	

Example 1 Bill for Water Service for February 2006 (during Trial Period)

February 2006 Billed Consumption (CCF) 3,279
February 2006 Usage 3,279

Consumption Billing	Rate		Usage		Bill
Winter Commodity Rate	\$ 1.01	x	3,599	=	\$ 3,634.59
Growth Charge	\$ 0.60	x	3,599	=	\$ 2,159.16
Adj. for Treatment	\$ (0.44)	x	3,599	=	\$ (1,583.39)
Subtotal					\$ 4,210.36

Facility Charge Billing \$0.00
(Facility Charge billing not applicable because North Bend is in a test period.)

Monthly Total \$ 4,210.36

Example 2 Bill for Water Service for February 2007 (during Trial Period)

February 2006 Billed Consumption (CCF) 3,599
February 2006 Usage 3,279
February 2007 Usage 3,759
February Max Usage 3,759

Consumption Billing	Rate		Usage		Bill
Winter Commodity Rate	\$ 1.01	x	3,599	=	\$ 3,634.59
Growth Charge	\$ 0.60	x	3,599	=	\$ 2,159.16
Adj. for Treatment	\$ (0.44)	x	3,599	=	\$ (1,583.39)
Subtotal					\$ 4,210.36

Facility Charge Billing \$0.00
(Facility Charge billing not applicable because North Bend is in a test period.)

Monthly Total \$ 4,210.36

Example 3 Bill for Water Service for June 2009 (during Entry Fee period)

June 2009 Billed Consumption (CCF) 7,373
June 2007 Usage 2,401
June 2008 Usage 10,514
June 2009 Usage 6,061
June Max Usage 10,514

Billed consumption is the average of the four entries on the left.

Consumption Billing	Rate		Usage		Bill
Summer Commodity Rate	\$ 1.53	x	7,373	=	\$ 11,279.93
Growth Charge	\$ 0.60	x	7,373	=	\$ 4,423.50
Adj. for Treatment	\$ (0.44)	x	7,373	=	\$ (3,243.90)
Subtotal					\$ 12,459.53

Facility Charge Billing \$0.00
(Facility Charge billing not applicable because North Bend is in a entry fee period.)

Monthly Total \$ 12,459.53

Example 4 Bill for Water Service for December 2013 (First year after Entry Fee period)

December 2013 Billed Consumption (CCF)	2,588
December 2011 Usage	3,298
December 2012 Usage	2,048
December 2013 Usage	1,673
December Max Usage	3,332

Billed consumption is the average of the four entries on the left.

Consumption Billing	Rate		Usage	=	Bill	
Winter Commodity Rate	\$ 1.08	x	2,588	=	\$ 2,794.72	The growth charged is phased out in 2012.
Growth Charge	\$ -	x	2,588	=	\$ -	
Adj. for Treatment	\$ (0.44)	x	2,588	=	\$ (1,138.59)	
Subtotal					\$ 1,656.13	

Facility Charge Billing	CCF's	ERU's	
a Annual Usage 2010	-	-	CCF's are converted to ERU's by dividing by the most recently available system-wide average annual usage of a single family customer (93.6 CCF's per year in this example).
b Annual Usage 2011	-	-	
c Annual Usage 2012	-	-	
d Annual Usage 2013	36,307	388	
Note: Usage in the test period ('05-12) counts as zero for facility charges			
e 3 yr Rolling Average ('10 - '12)	-	-	ERUs do not include decimals.
f 3 yr Rolling Average ('11 - '13)	12,102	129	
Growth in average usage (f - e)	12,102	129	

Facility Charge (2009)	Rate (\$/ERU)	ERU's	=	Amt
Annual Charge	713	x 129	=	\$ 91,977
Monthly Charge	= Annual Charge divided by 12			\$ 7,664.75

Entry Fee (one time only)	CCF's	ERU's	
Annual Usage 2008	43,457	464	CCF's are converted to ERU's by dividing by the most recently available system-wide average annual usage of a single family customer (93.6 CCF's per year in this example).
Annual Usage 2009	41,494	443	
Annual Usage 2010	28,246	302	
Annual Usage 2011	52,379	560	
Annual Usage 2012	44,925	480	
5 yr Average	42,100	450	

Entry Fee	Rate (\$/ERU)	ERU's	=	Amt
Annual Charge	239	x \$ 450	=	\$ 107,550
Monthly Charge	= Annual Charge divided by 12			\$ 8,962.50

Monthly Total **\$ 18,283.38**

Example 5 Bill for Water Service for October 2015

October 2013 Billed Consumption (CCF)	2,637
October 2013 Usage	2,175
October 2014 Usage	1,412
October 2015 Usage	2,672
October Max Usage	4,288

Billed consumption is the average of the four entries on the left.

Consumption Billing	Rate		Usage	=	Bill	
Winter Commodity Rate	\$ 1.08	x	2,637	=	\$ 2,847.48	The growth charged is phased out in 2012.
Growth Charge	\$ -	x	2,637	=	\$ -	
Adj. for Treatment	\$ (0.44)	x	2,637	=	\$ (1,160.08)	
Subtotal					\$ 1,687.39	

Facility Charge Billing	CCF's	ERU's	
a Annual Usage 2012	44,925	480	CCF's are converted to ERU's by dividing by the average annual usage of a single family customer (93.6 CCF's in this example).
b Annual Usage 2013	36,307	388	
c Annual Usage 2014	60,742	649	
d Annual Usage 2015	45,283	484	
e 3 yr Rolling Average ('09 - '11)	47,324	506	ERUs do not include decimals.
f 3 yr Rolling Average ('10 - '12)	47,444	507	
Growth in average usage (f - e)	119	1	

Facility Charge (2014)	Rate (\$/ERU)	ERU's	=	Amt
Annual Charge	713	x \$ 1	=	\$ 713
Monthly Charge	= Annual Charge divided by 12			\$ 59.42

Monthly Total **\$ 10,709.31**

Example Calculation for Buy In Fee

Assets paid for by Existing Customers:

Total Assets	1,142,171,613
Minus Outstanding Bonds	776,790,000
Assets paid for by Existing Customers	<u>365,381,613</u>

Portion of Capital Assets and Deferred Charges that are Regional:

Net Book Value of Regional Assets and Deferred Charges	555,804,075
Divided by Net Book Value of all Assets and Deferred Charges	1,035,625,094
Portion of Assets that are Regional	53.7%

Regional Assets that are paid for by Existing Customers:

Assets paid for by Existing Customers	365,381,613
Times portion of Assets that are Regional	53.7%
Regional Assets that are paid for by Existing Customers	196,094,697

Regional Assets paid for per system ERU:

Regional Assets that are paid for by Existing Customers	196,094,697
Divide by Firm Yield (Example is 171 MGD, converted to 83,442,513 ccf/year)	2.35
Convert to \$/ERUs using average annual use of single family household (Example uses 93.6 ccf/year)	220

Example Calculation for Treatment Adjustment**Asset Costs:**

Cedar Treatment Facility Net Book Value	91,425,877.16	
Return on Net Book Value (at 6.0% Rate of Return)		5,485,552.63
Cedar Treatment Depreciation		2,625,770.87
Tolt Treatment Facility Net Book Value	72,810,667.68	
Return on Net Book Value (at 6.0% Rate of Return)		4,368,640.06
Tolt Treatment Depreciation		2,318,630.57

Operations and Maintenance Costs:

N661301 TOLT MANAGEMENT COSTS	83,853.87
N661302 TOLT CONTRACTOR PAYMENTS	3,098,296.28
N661303 CEDAR DBO MANAGEMENT COSTS	80,125.36
N661304 CEDAR DBO OPERATIONS PAYMENTS	2,690,302.87
N662302 (CEDAR) CHOLRINATION FAC O&M	690,416.49
N662304 FLUORIDATION PROGRAM O&M	225,282.89
N664001 SWTR MONITORING, REPRTING & ADM	153,802.99
N664002 TCR MONITORING, REPRTING & ADMN	622,438.64
N664006 LCR MONITORING, REPRTING & ADM	85,568.29
N664008 OTHER REGULATORY SUPPORT	107,294.19
N664009 DBP MONITORING, REPORTING & ADM	112,076.09
Overhead on above at 43.216%	<u>3,435,437.75</u>

Total Regional Cost related to treatment

26,183,489.82

Portion of Demand Under 2001 Type Contracts	96.3%	
Portion of Costs Under 2001 Type Contracts		25,204,630.38

Portion of Demand Under Block Contracts	23.2%	
Portion of Costs Under Block Contracts		6,067,679.25
Subtract Block Contract Costs from all 2001-Type Costs		19,136,951.13

Flow under new Full and Partial contract (ccf)		43,601,344.46
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Treatment cost per CCF

0.44

EXHIBIT D

OPERATING BOARD STRUCTURE

OPERATING BOARD STRUCTURE

1. Structure. The Operating Board (or “Board”) shall be structured as follows:
 - a. The Board shall consist of seven (7) members, composed of three members representing Seattle Public Utilities (SPU), three members representing Seattle’s Wholesale Customers selected as described below and one independent party selected as set forth below to be a tie-breaker as needed. Board members shall, to the best of their ability, act in the best interests of the Seattle Water Supply System as a whole and shall not represent the interest of a group of utilities or an individual utility.
 - b. The term of each Board position shall commence on January 1 and shall be for four (4) years. Terms of each Board position shall be staggered such that no more than two positions are renewed in any single year. Board members may serve not more than three successive terms.
 - c. Three Board members representing the Wholesale Customers will be selected from persons nominated by the holders of Full Requirements and Partial Requirements Contracts and sorted into three categories based on utility size, calculated by ERU’s. The selected categories will be small, medium and large utilities, which will be made up from approximately equal numbers of contract holders. Each category of utility may elect, by majority vote (one vote per utility) its representative to the Operating Board.
 - d. The initial Operating Board will be created when there are at least six (6) signatories to the Full and Partial Requirements Contracts or January 1, 2002, whichever comes first. The initial Board will then be recomposed pursuant to the above subsection on January 1, 2002 and every 5 years thereafter.
 - e. The seventh member of the Board shall be a person having expertise in the operations of regional water supply systems. Such person shall be selected by majority vote of the other Board members. In the event of a deadlock in selecting the independent representative, the independent board member shall be selected by Judicial Arbitration and Mediation Services Inc., of Seattle, Washington or its successor. The seventh member shall not vote on issues coming before the Board unless there is a deadlock in the voting among the other six Board members. The seventh member may nevertheless express his or her opinions in Operating Board discussions. Such member shall have no employment, financial or contractual relationship with Seattle nor any Wholesale Customer and shall have no other actual or apparent conflict of interest in holding this position.

2. Voting Except as otherwise provided above, each member of the Board shall have one vote on all matters coming before the Board. Each Board member may appoint an alternate to vote in his or her absence. A quorum of four (4) Board members present shall be required for any vote. Members of the Board may not grant proxies for any vote.
3. Chairperson The Board shall have a Chairperson who will be selected and have duties as defined below:
 - a. The Chairperson shall be selected at the first regularly scheduled meeting of each new year.
 - b. For the initial year, a designated representative of SPU shall be the Chairperson of the Board. All Chairpersons thereafter shall be selected by the Board using a nomination and voting process.
 - c. Nominations for the position of Chairperson shall be taken from Board members. The Chairperson shall be selected based upon the simple majority vote of Board members. Should the Board fail to elect a Chairperson at the first regularly scheduled meeting of the new year, a designated representative from SPU shall be the acting Chairperson until such time as the Board elects a Chairperson.
 - d. The Chairperson shall have the responsibility to call meetings, determine the agenda and preside over meetings. In the absence of the Chairperson, for whatever reason, a designated representative from SPU shall be the Acting Chairperson for that meeting. The Chairperson shall also act as the spokesperson for the Board and liaison between the Administrator and the Seattle City Council's Committee on Water Resources and Public Health or successor committees.
4. Schedule / Procedures. The Board shall adopt a regular meeting schedule and notify all Wholesale Customers of the schedule. The Operating Board may adopt its own internal procedures. The latest edition of Roberts Rules of Order shall, in the absence of agreement by the Operating Board on procedural matters, govern all meetings and votes of the Operating Board.
5. Reporting. The Board will provide reports to the Wholesale Customers and to the Seattle City Council Committee on Water Resources, or successor City Council committee, on its decisions and recommendations in a timely manner.
6. Responsibilities and Authority of the Board. The Contract Authority Matrix, attached as Exhibit E, provides an outline of the responsibilities and authority of the Board for illustration purposes only. It also provides details of the relationship between the Operating Board, the Seattle City Council, and the Seattle Public Utilities. Where no clear responsibility or authority on an issue is established in this contract the responsibility and authority shall rest with the Seattle City Council.
7. Expenses. The Board shall be authorized to incur reasonable expenses which will be allocated by the Board to either or both of the New Transmission or Supply Cost Pools.

EXHIBIT E
CONTRACT AUTHORITY MATRIX

CONTRACT AUTHORITY MATRIX

	SPU ADMINISTRATOR	OPERATING BOARD	COUNCIL
CONTRACT			
Terms & conditions (amendments)	Implements	Recommends	Authorizes
OPERATING BOARD			
Structure & responsibilities	Recommends	Recommends	Authorizes
FINANCIAL			
Cost allocation structure	Recommends	Reviews & Recommends	Authorizes
Wholesale Rates	Develops & Implements	Review & Recommends	Authorizes
New Financial Policies	Develops & Implements	Reviews & Recommends	Authorizes
Purchase and disposal of regional property	Recommends	Recommends	Authorizes
Allocation of new regional projects costs	Recommends	Authorizes	Reviews
Issuance of Bonds	Implements	-	Authorizes
Regional Budget	Develops & Implements	Reviews & Recommends	Authorizes
Selection of vendors, consultants & contractors (for regional projects)	Authorizes	Recommends	-
Regional CIP	Develops & Implements	Recommends	Authorizes

	SPU ADMINISTRATOR	OPERATING BOARD	COUNCIL
SUPPLY			
Yield Analysis	Develops	Reviews	Reviews
Selections of new sources	Recommends	Recommends	Authorizes
New source criteria	Implements	Authorizes	Reviews
New supply cost allocation	Develops & Implements	Authorizes	Reviews
Allocation of supply to new customers	Recommends	Recommends	Authorizes
Reserves	Develops & Implements	Authorizes	Reviews
Allocation of block sales quantities	Implements	Recommends	Authorizes
Water Shortage Contingency Plan	Implements	Develops & Recommends	Authorizes
WATER CONSERVATION			
1% Program	Develops & Implements	Reviews	Reviews and Approves
New Goals	Implements	Develops & Authorizes	Reviews
Incentive & disincentive programs	Implements	Develops & Authorizes	Reviews
Conservation Potential Assessment	Develops & Approves	Reviews	Reviews

	SPU ADMINISTRATOR	OPERATING BOARD	COUNCIL
WATER QUALITY			
Monitoring responsibility	Develops & Approves	Reviews	Reviews
Selection of new treatment techniques	Reviews & Implements	Recommends	Authorizes
New treatment cost allocation	Recommends & Implements	Authorizes	Reviews
New treatment regulations	Reviews & Implements	Reviews	Reviews
Flushing allowances	Reviews	Authorizes	Reviews
Solutions to identified regional water quality deficiencies	Recommends & Implements	Recommends	Authorizes
REGIONAL INFRASTRUCTURE			
Operation of System	Implements	Recommends	Authorizes
Access to transmission	Recommends	Recommends	Authorizes
Allocation of excess capacity	Recommends & Implements	Recommends	Authorizes
Transmission capacity cost allocation	Recommends & Implements	Authorizes	Reviews
New regional infrastructure	Recommends	Authorizes	Authorizes
New regional project cost allocation	Recommends	Authorizes	Reviews
Wheeling	Recommends	Recommends	Authorizes
Wheeling cost	Develops & Implements	Reviews & Recommends	Authorizes
Regional CIP prioritization	Develops & Recommends	Reviews & Recommends	Authorizes

	SPU ADMINISTRATOR	OPERATING BOARD	COUNCIL
OPERATIONS & MAINTENANCE			
Best Management Practices	Recommends & Implements	Develops & Approves	Reviews
Demand Forecast	Develops & Approves	Reviews	Reviews
Reliability standard	Develops & Recommends	Reviews & Recommends	Authorizes
REGIONAL ISSUES			
CPS Water Suppliers Forum	Represents	-	Reviews
Tacoma Second Supply Project	Represents	Recommends	Represents
HCP's	Represents	Recommends	Authorizes
Regional conservation organizations	Represents	Recommends	Authorizes